

# Joint Legislative Budget Committee

## Staff Memorandum

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DATE: March 30, 2006

TO: Senator Ken Bennett, Senate President  
Representative Jim Weiers, Speaker of the House

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: ESTIMATED CLASSROOM SITE FUND PER PUPIL AMOUNT FOR FY 2007

A.R.S. § 15-977 requires the JLBC Staff to determine the Classroom Site Fund (CSF) per pupil distribution for the following budget year by March 30. The CSF was established by Proposition 301 from the November 2000 General Election. It receives funding from the 0.6¢ education sales tax established by Proposition 301 and from growth in K-12 state trust land revenues. The JLBC Staff estimates that the per pupil amount for FY 2007 will be \$333.

### Statutory Formula

A.R.S. § 15-977(B)(1) specifies that the estimated per pupil funding amount from the CSF for a given budget year is to be computed using the estimated “weighted” student count for the current year and estimated resources in the CSF for the budget year. The Arizona Department of Education (ADE) currently estimates that the weighted student count for the current year will be 1,219,385 and the JLBC Staff projects that the CSF will have \$406,550,500 in available resources for FY 2007 apart from any adjustment for cumulative prior year shortfalls. It is from these 2 figures that we have derived the \$333 per pupil CSF estimate for FY 2007 ( $\$406,550,500 / 1,219,385 = \$333$  per weighted pupil) (*see attachment*).

### Estimated Weighted Student Count

The estimated FY 2007 student count of 1,219,385 equals the preliminary 100-day Average Daily Membership (ADM) count from school districts from the current year (FY 2006) and the projected 100-day ADM count for charter schools for next year (FY 2007). This is because CSF allocations are based on “student counts,” which in statute means “prior year” ADM for districts and “current year” ADM for charter schools. Since from the perspective of FY 2007, prior year ADM counts for school districts are already known (although clean up issues remain), the portion of the 1,219,385 estimated student count for FY 2007 that pertains to school districts should not change substantially. The portion pertaining to charter schools is more uncertain because it will depend on actual charter school ADM growth for next year.

ADE’s student count estimate includes pupils from the Arizona State Schools for the Deaf and the Blind (ASDB) and from the Department of Juvenile Corrections (DJC), since they also receive CSF funding. Per pupil allocations for public schools and DJC are based on their “Group A weighted” students counts, whereas allocations for ASDB are based on its “Group B weighted” count pursuant to A.R.S. § 15-977(G).

### Estimated CSF Revenues

The CSF revenue estimate of \$406,550,500 for FY 2007 assumes 15.8% growth in Proposition 301 sales tax revenues for FY 2006 and 5.9% in additional growth for FY 2007. The assumed 15.8% growth rate for

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FY 2006 is the current JLBC Staff estimate for the current year. The assumed FY 2007 growth rate of 5.9% reflects the JLBC March 2005 Consensus Forecast for FY 2007 sales tax revenues. The FY 2007 consensus forecast was derived by equally weighting the Finance Advisory Committee forecast average, the University of Arizona Economic and Business Research (EBR) model baseline estimate, the EBR conservative estimate and the JLBC Staff forecast.

The \$406,550,500 estimate also includes an estimated \$29,650,000 in K-12 endowment earnings for FY 2007. Proposition 301 requires all K-12 endowment earnings above \$72,263,000 to be deposited into the CSF. The \$29,650,000 estimated endowment earnings amount is based on currently available data from the State Treasurer and State Land Department and is \$6,530,300 higher than the current FY 2006 JLBC Staff estimate of \$23,119,700 due to anticipated growth in land sales income and overall investment returns for FY 2007.

#### Potential Impact of Estimation Error

The March 30 estimates are based on projected estimates of sales tax revenues, endowment earnings, carry forward amounts, student counts and other factors. If revenue factors or student counts vary from the assumptions, more funding will end up being available per pupil than anticipated, and vice versa.

If the March 30 per pupil estimate is too *high*, recipients will receive only what is available for distribution from the CSF for the year, which would be less than the March 30 estimate would provide. Under this circumstance, A.R.S. §§ 15-977(H) and 15-978 would allow school districts to issue “warrants” (short term loans from commercial banks) to temporarily make up the difference. Districts would then have to pay back the warrants with interest the following year. Charter schools do not have statutory authority to issue warrants, however, so would have to cover any CSF shortfall with alternative funding, such as from separately-arranged bank financing.

If the March 30 per pupil estimate is too *low*, recipients potentially could receive at least a portion of the surplus funding anyway in FY 2007 through prior year backpayments authorized by A.R.S. §15-977(K). Otherwise surplus monies would be carried forward into FY 2008 and subsequently would be factored into CSF per pupil computations for that year.

It should be noted that the March 30 estimate for FY 2007 does not include an adjustment for cumulative prior year shortfalls. Furthermore, the current estimate for FY 2007 does not include adjustments for contingencies such as underperforming revenues, higher than expected enrollment growth, or monies being deposited too late into the CSF to be distributed for FY 2007. Current law does not make provisions for such adjustments.

#### Comparison to Prior Projections

The estimated \$333 CSF funding amount per pupil for FY 2007 would generate \$407 million for public schools under current projections. This would be \$21 million more than the current FY 2006 projection of \$386 million, but \$(11) million less than the original FY 2006 projection of \$418 million. The original FY 2006 estimate is not expected to be met due to lower than projected revenues from prior year carryforward monies and endowment earnings in the current year. As a result, no one-time carryforward monies from FY 2006 are expected to be available for CSF distribution in FY 2007. The entire \$333 per pupil amount for FY 2007 therefore is expected to come from current year (FY 2007) revenues only. In contrast, the original \$353 per pupil estimate for FY 2006 included \$283 in projected current year revenues plus \$70 in one-time carryforward monies per pupil.

The revised FY 2006 estimate of \$326 per pupil includes \$311 in current year revenues and \$15 in one-time carryforward monies per pupil. Current year revenues for FY 2006 are higher than originally projected (\$311 per pupil revised versus \$283 original) because of higher than expected sales tax growth in FY 2006 (15.8% revised versus 6.6% original). One-time revenues for FY 2006, however, are substantially lower than originally projected (\$15 per pupil revised versus \$70 original) partly because the CSF carryforward balance reported by ADE for FY 2004 (which was factored into one-time funding computations for FY 2006) was

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overstated because it did not subtract monies used in July 2004 to make a final CSF payment for FY 2004. The FY 2006 carryforward amount also is lower than originally projected because endowment earning revenues in FY 2005 were \$(14) million less than expected and because of a miscellaneous \$(6) million CSF accounting correction.

RS/SSC:ym

Attachment

xc: Representative Mark Anderson, Chairman, House K-12 Education Committee  
Senator Toni Hellon, Chairman, Senate K-12 Education Committee  
Senator Robert Burns, Chairman, Appropriations Committee  
Representative Tom Boone, Chairman, Appropriations (B) Committee  
Representative Russell Pearce, Chairman, Appropriations (P) Committee  
Tom Horne, Superintendent of Public Instruction  
Gary Yaquinto, Director, OSPB  
Brad Regens, House  
Karla Phillips, House  
Brian Lockery, House  
Cristina Arzaga-Williams, House  
Chris Kotterman, House  
Mark Swenson, Senate  
Javan Mesnard, Senate  
Dawn Nazary, Senate  
Nikki Amberg, Senate  
Greg Ensell, Senate

## Estimated Classroom Site Fund Per Pupil Allocation for FY 2007

JLBC Staff

3/29/2006

### Notes:

1. "Sales Tax" revenue estimates for FY 2006 (revised) and FY 2007 assume 15.8% and 5.9% sales tax growth, respectively.
2. "Prop 301 Expenditure" estimates for FY 2006 and FY 2007 are based on the distribution formula in A.R.S. § 42-5029(E).
3. "Endowment Earnings" estimates for FY 2006 (revised) and FY 2007 are from the JLBC Staff based on data currently available from the State Treasurer and State Land Department.
4. The revised "Prior Year Carryforward" figure for FY 2006 is from ADE. The FY 2007 estimate assumes that all available revenue for FY 2007 will be distributed that year based on input from ADE.
5. ADE has not made any "Backpayments for Prior Year Shortfalls" since the start of Prop 301 and indicates that it would only do so in FY 2007 if surplus monies were available after distributing the entire estimated per pupil amount for that year.
6. The "Weighted Student Count" estimates for FY 2006 and FY 2007 are from ADE and include ASDB and DJC.

	(original) FY 2006	(revised) FY 2006	(estimated) FY 2007
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### Prop 301 Revenues

Sales Tax	565,287,300	623,405,100	660,186,000
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### Prop 301 Expenditures

SFB Debt Service	65,805,000	65,805,000	65,805,000
Universities	59,937,900	66,912,000	71,325,700
Community Colleges	14,984,500	16,728,000	17,831,400
Tribal Assistance	515,500	531,300	542,900
Additional School Days	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000
Accountability Measures / SAIS	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000
Classroom Site Fund	296,263,900	345,648,300	376,900,500
Total (sales tax only)	565,287,300	623,405,100	660,186,000

### Classroom Site Fund Revenues

Prop 301 Sales Tax	296,263,900	345,648,300	376,900,500
Endowment Earnings	38,799,200	23,119,700	29,650,000
Prior Year Carryforward	82,503,500	17,426,400	-
Total Estimated Revenues	417,566,600	386,194,400	406,550,500

### Classroom Site Fund Expenditures

Total Estimated Revenues	417,566,600	386,194,400	406,550,500
Less: Backpayments for Prior Year Shortfalls	-	-	-
Less: Carryforward to Next Year	-	-	-
Net Revenues Available for Current Year	417,566,600	386,194,400	406,550,500
Weighted Student Count	1,182,992	1,185,019	1,219,385
Available Funding Per Weighted Pupil	\$353	\$326	\$333